

Irwin Toy Limited Annual Report

FOR THE YEAR ENDED JANUARY 31, 1976

financial highlights

	1976	1975
Total assets	\$21,138,648	\$15,997,271
Net sales — Irwin Toy	\$18,232,055	\$14,846,577
Net sales — Irwin Toy and Joint Ventures	\$31,570,789	\$28,601,956
Net earnings before extraordinary item	\$362,792	\$853,187
Extraordinary item-gain on disposal of property	\$402,883	
Net earnings	\$765,675	\$853,187
Retained earnings	\$6,019,424	\$5,498,029
Earnings per share before extraordinary item	\$0.15	\$0.35
Earnings per share after extraordinary item	\$0.31	\$0.35
Working capital	\$7,032,199	\$3,692,865
Shareholders' equity	\$6,889,784	\$6,368,389
Number of shares outstanding	2,442,800	2,442,800

directors and officers

Directors

Louis Boaretti
Edward J. M. Huycke, Q.C.
Arnold B. Irwin
Beatrice I. Irwin
S. Macdonald Irwin
C. Edward Medland

Officers

Arnold B. Irwin, President
S. Macdonald Irwin, Executive Vice-President
Louis Boaretti, Vice-President Finance, and Secretary
John Chilvers, Vice-President and General Manager —
Wholesale Division
Jack Dyson, Vice-President — Sales



report to the shareholders



ARNOLD B. IRWIN, *President of Irwin Toy Limited*



S. MACDONALD IRWIN, *Executive Vice-President*

The consolidated gross sales of your Company and its subsidiaries increased 21.8% from \$15,570,000 to \$18,961,000 for the year ended January 31st, 1976. Together with our 50% owned joint ventures companies, the combined gross sales increased from \$30,541,000 to \$33,369,000 or by 9.3%, a comparatively small percentage gain but still laudable.

Heavy concentration on lower margin goods combined with higher overhead, higher interest costs and increased provision for doubtful accounts all served to reduce net earnings.

Net earnings before an extraordinary item were \$362,792 (\$0.15 per share) compared to last year's \$853,187 (\$0.35 per share). Including an extraordinary gain on property disposal, as mentioned below, the year's total net earnings amounted to \$765,675 (\$0.31 per share).

Final quarter operating costs were affected by two management decisions. Certain overhead costs relating to our first year of swimming pool manufacturing and not previously absorbed, were written off against earnings. Because of apparent toy marketing trends a further write-off was made in year end inventory values recognizing greater obsolescence. These two management decisions, while reducing the current year net earnings, leave the Company in a very sound trading position for the coming year.

The Company's property at 145 Front Street East, Toronto, was expropriated during the year by The City of Toronto, resulting in an extraordinary net gain to the year end of \$402,883. Negotiations on an increased price for this property are continuing.

We purchased the previously rented warehouse building at North Queen Street in Etobicoke at a cost of \$6,496,775, with related mortgage obligations, at purchase date, of \$5,178,511. This purchase secured for the Company a very modern warehousing and sales centre that will

undoubtedly improve our customer service. Shareholders who wish to see this facility are welcome during business hours. The showroom displays our products in a most attractive manner. Working in the showroom is both pleasant and productive.

Long term financing was arranged in the form of a Term Bank Loan of \$4,500,000, at prime bank rate plus 1¾% maturing in 1983. This Term Bank Loan was the major factor in giving the Company a favourable ratio of current assets to current liabilities at the year end of 2.64 to 1. The terms of our long term financing restrict our payment of dividends to 40% of the consolidated net earnings of the preceding year, with a maximum dividend of \$300,000 if such earnings are less than \$900,000. Under this restriction the Company has the privilege of paying up to \$300,000 this year. At this time the Company is not considering declaring any larger dividends than those declared in the year ended January 31, 1976.

As anticipated in my nine month report, because of industry efforts to keep inventories to the lowest possible level, our fourth quarter for this year was lower than the fourth quarter of the previous year. But because chain and department stores achieved satisfactory sales increases from their existing inventories, the level of our products unsold at the end of the fourth quarter was quite low. Therefore, because of satisfactory sales results, lower inventories and a new customer optimism, orders placed with us at the February 1976 Toy Fair were larger than a year ago, larger despite the discontinued operation of a mail order house which contributed substantially to last year's sales.

All in all—while the year was of considerable disappointment to the Company—it was a year of solid building growth—with a lot of the credit directly due to our many loyal employees. They have my sincere thanks and deep appreciation.

A. B. Irwin
Toronto, Ontario
April 30, 1976

history of the company

50 years of family, business growth

Irwin Specialties was brought to life back in 1926 by the late Samuel B. Irwin. Criss-crossing the country by train with his suitcase of samples he worked hard to keep his business dream alive. Back in 1926 the field of novelty specialties was in its infancy and Mr. Irwin and the industry grew together. And they grew strong.

Now, 50 years later, Irwin salesmen criss-cross the country selling more than 8,000 products under the guidance of Mr. Irwin's sons and their sons. The business also still benefits from the presence and counselling of Mrs. Beatrice Irwin—the wife of the man who started it all.

A remarkable story of family continuity and business growth. And what growth. Growth produced by joint 50% ventures with such well known companies as Kenner Products, Ideal Toy Corporation and Tyco Industries. Growth by producing in Canada under license from many leading U.S. companies.

Growth, in that Irwin is the only Canadian Toy company listed on the Montreal and Toronto Stock Exchanges. Fittingly, considering its business, of the total number of Irwin shareholders almost 20% are children. Growth—now manufacturing over eleven million toys a year and the largest manufacturer of souvenirs, gift, toy, game and leisure products in Canada.

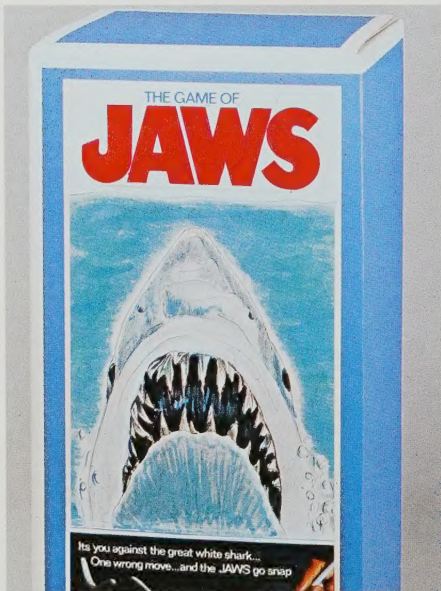
Growth—beginning with the name Irwin Specialties then changed to Irwin Toy Limited and known as the Irwin Group. The newest Irwin building contains 440,000 square feet of space. Combined with the other manufacturing and administrative facilities there are now over 1,000,000 square feet of Irwin building space. The Irwin Group now supplies everything from swimming pools to swings to sporting goods and leisure products to children's books and craft products, T-shirts and sweat shirts and pennants and a variety of toys and games.

And it all started with one man and one suitcase of samples.

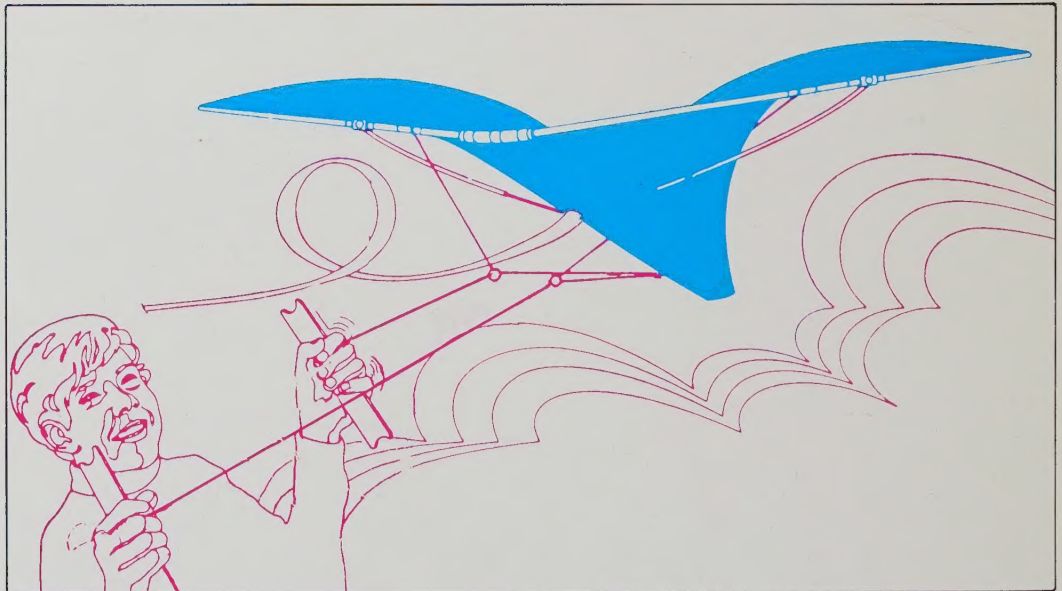
The new Irwin Group building in Etobicoke, Ontario



new products for 1976



The smash hit movie of 1975 now becomes the smash hit "Ideal" game of 1976. Early production has already been "eaten up". Irwin will also produce bound-to-be-popular Jaws T-shirts.



The Peter Powell Stunter Kite is all the rage in England. It won the International Inventor's Gold & Silver awards in Geneva. It's controlled by two cords that make it do all kinds of stunts. Bound to be a high-flying seller. A million have already sold in Japan.

new products for 1976

The "Playmobil" System is superb. A constant sell-out in Europe. Kids up to 12 years really love the 3 inch plastic figures with moving arms and legs and hands that can be closed to grip all kinds of things. These nifty figures can also be dressed in a great variety of costumes to tie in with the accessories like horses, trucks, wheelbarrows, tools, etc. A typical grouping of these versatile figures is illustrated on opposite page.



We are introducing new profit characters for the fast-moving Six Million Dollar Man line of toys including Maskatron, the arch-rival of the Six Million Dollar Man and are also introducing his perfect sales mate, the Bionic Woman. The Bionic Woman is a 12¼" doll in a bionic motif sweat suit. She has rooted brown hair, legs containing flesh-coloured hinged doors that open to reveal removeable bionic modules and when her head is turned a pinging noise simulates the pinging heard on the T.V. show. We predict that the Bionic Woman will be the best selling girl's toy in North America in 1976. From "Kenner."

new products for 1976



Kusan's Zoodle Land toys add so much to the child's world of make-believe. Here to keep imaginations even busier are the Zoodle Hippo Play Sink, the Zoodle Turtle Play Stove, the Bumble Bee, Li'l Jolly Racer and Li'l Jolly Set. (illustrated above)

Children love to cuddle their pets especially these Peanuts characters: Snoopy, Charlie Brown, Lucy, Linus, and Peppermint Patty. Grown-ups will really go for them, too. (illustrated below)



new facilities



Our new Etobicoke building features 25,000 square feet of very attractive showrooms that are superb sales stages for the more than one thousand different products we make each year. Buyers from all over Canada really enjoy buying in such attractive showrooms.



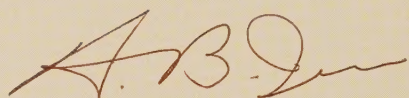
The Irwin policy has always been to constantly stimulate the market with new products—products that have been highly successful in other countries. These new showrooms form dramatic backgrounds for the incredibly international range of toys, games and crafts.



consolidated balance sheet as at January 31, 1976

	1976	1975
ASSETS		
Current:		
Accounts receivable	\$ 3,916,329	\$ 3,008,938
Inventories, at lower of cost or net realizable value	7,003,434	9,419,881
Prepaid expenses	393,094	420,131
	11,312,857	12,848,950
Life insurance:		
Cash surrender value	237,062	207,797
Investments:		
Joint venture companies 50% owned	1,394,313	1,277,870
Fixed (note 2):		
Land, buildings, plant and equipment at cost less accumulated depreciation of \$1,192,582 (1975 — \$939,160)	8,194,416	1,662,654

APPROVED ON BEHALF OF THE BOARD:



A. B. IRWIN, Director



L. BOARETTI, Director

\$21,138,648	\$15,997,271
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irwin toy limited and subsidiaries

	1976	1975
LIABILITIES		
Current:		
Bank indebtedness (secured)	\$ 1,171,783	\$ 5,790,392
Accounts payable and accrued liabilities	2,358,545	2,595,648
Income and other taxes payable	473,391	662,653
Current portion of long-term debt	276,939	107,392
	<u>4,280,658</u>	<u>9,156,085</u>
Long-term debt (note 3)	9,622,206	234,316
Deferred income taxes	346,000	238,481
	<u>14,248,864</u>	<u>9,628,882</u>
SHAREHOLDERS' EQUITY		
Capital stock (note 4):		
Authorized:		
6,000,000 Class A convertible common shares without par value		
6,000,000 Class B convertible common shares without par value		
1,000 Class C common shares without par value		
Issued and fully paid:		
1,487,276 Class A shares (1975 — 1,485,526)		
955,524 Class B shares (1975 — 957,274)		
<u>2,442,800</u>	<u>(1975 — 2,442,800)</u>	<u>840,667</u>
	840,667	840,667
Contributed surplus	29,693	29,693
Retained earnings	6,019,424	5,498,029
	<u>6,889,784</u>	<u>6,368,389</u>
	<u>\$21,138,648</u>	<u>\$ 15,997,271</u>

statements of earnings

year ended January 31, 1976

	CONSOLIDATED (note 1)		COMBINED (note 1)	
	1976	1975	1976	1975
Gross sales of products and services	\$18,961,027	\$15,570,474	\$33,368,657	\$30,540,845
Sales tax	728,972	723,897	1,797,868	1,938,889
	18,232,055	14,846,577	31,570,789	28,601,956
Cost of products and services, selling, distribution and administrative expenses	17,403,987	13,405,848	29,927,659	26,208,729
Depreciation	333,861	257,496	382,039	318,012
Interest on long-term debt	169,522	30,537	169,522	30,537
	17,907,370	13,693,881	30,479,220	26,557,278
Earnings before income taxes	324,685	1,152,696	1,091,569	2,044,678
Income taxes:				
Current	70,816	408,000	399,816	815,200
Deferred	107,519	126,000	112,519	141,800
	178,335	534,000	512,335	957,000
Earnings before undernoted	146,350	618,696	579,234	1,087,678
Equity in net earnings of companies 50% owned (note 1(a))	216,442	234,491		
Equity in net earnings of companies 50% owned attributable to other shareholders (note 1(b))			216,442	234,491
Net earnings before extraordinary item	362,792	853,187	362,792	853,187
Extraordinary item—gain on disposal of property	402,883		402,883	
Net earnings for the year	\$ 765,675	\$ 853,187	\$ 765,675	\$ 853,187
Shares issued and outstanding	2,442,800	2,442,800	2,442,800	2,442,800
Net earnings per share:				
Before extraordinary item	\$0.15	\$0.35	\$0.15	\$0.35
After extraordinary item	\$0.31	\$0.35	\$0.31	\$0.35

consolidated statement of retained earnings

year ended January 31, 1976

	1976	1975
Retained earnings at beginning of year	\$ 5,498,029	\$4,937,978
Net earnings for the year	765,675	853,187
	<u>6,263,704</u>	<u>5,791,165</u>
Dividends—Class A and Class B convertible common shares	229,941	275,873
15% tax paid on 1971 undistributed income	14,339	17,263
	<u>244,280</u>	<u>293,136</u>
Retained earnings at end of year	<u>\$ 6,019,424</u>	<u>\$5,498,029</u>

consolidated statement of changes in financial position

year ended January 31, 1976

	1976	1975
Sources of working capital:		
Net earnings before extraordinary item	\$ 362,792	\$ 853,187
Deduct: Equity in net earnings of companies 50 % owned	<u>216,442</u>	<u>234,491</u>
	146,350	618,696
Extraordinary item—gain on disposal of property	402,883	
Dividends from companies 50 % owned	100,000	100,000
Depreciation on fixed assets	333,861	257,496
Deferred income taxes	107,519	126,000
Increase in long-term debt (note 3)	<u>9,502,341</u>	
	<u>10,592,954</u>	<u>1,102,192</u>
Applications of working capital:		
Increase in cash surrender value of life insurance	29,265	29,266
Building and equipment additions (note 2)	6,865,624	269,539
Acquisition of subsidiary, net of working capital acquired		66,322
Repayment of long-term debt	114,451	47,743
Dividends	229,941	275,873
15% tax paid on 1971 undistributed income	14,339	17,263
	<u>7,253,620</u>	<u>706,006</u>
Resulting in an increase in working capital of	<u>3,339,334</u>	<u>396,186</u>
Working capital at beginning of year	<u>3,692,865</u>	<u>3,296,679</u>
Working capital at end of year	<u>\$ 7,032,199</u>	<u>\$3,692,865</u>

notes to consolidated financial statements

1. Summary of accounting policies:

a) *Principles of consolidation:*

The consolidated statements contain the accounts of the Company and its wholly owned subsidiaries, Transogram Canada Limited and Playco Limited. The Company follows the equity accounting principle under which consolidated net earnings include the Company's equity in the net earnings of all joint venture companies 50% owned; the investment in these companies has been increased by the Company's share of their undistributed net earnings since acquisition and is reflected in the balance sheet at its equity in their underlying net tangible assets.

The Company owns one-half of the shares of Ideal Toy Company of Canada, Ltd., Kenner Products (Canada) Limited, Tyco Canada, Limited and IRP Limited. These companies are of a joint venture nature. The Company provides the facilities and personnel for management, administration, manufacturing, sales and distribution. Other shareholders provide research, development, production tooling and consulting services.

b) *Principles of combined statement of earnings:*

In the combined statement of earnings the accounts of the Company and its wholly owned subsidiaries are combined with the accounts of the joint venture companies 50% owned on a fully integrated basis. The net earnings attributable to the other joint venture shareholders reduce the combined earnings and are reflected as "Equity in net earnings of companies 50% owned attributable to other shareholders." It is the opinion of management that as the Company, its subsidiaries and the joint venture companies 50% owned operate together as a group, the results of operations are better disclosed on a combined basis.

c) *Inventories:*

Inventory amounts are based upon physical determinations at the year end and have been stated at the lower of cost or net realizable value.

d) *Fixed assets and depreciation:*

The Company records buildings, plant and equipment at cost. Depreciation is provided at appropriate rates to allocate original cost over the useful lives of the assets. Maintenance and repairs are charged against earnings as incurred.

e) *Income taxes:*

Income taxes are accounted for on the tax allocation method whereby income taxes are fully provided on reported earnings at current tax rates. Reported earnings differ from taxable income because of timing differences, principally depreciation which under income tax legislation currently exceeds the depreciation provided in the financial statements. The effect of such timing differences on income taxes otherwise payable is recognized as deferred income taxes.

2. Fixed assets:

Additions during the year to fixed assets include the acquisition of the previously rented warehouse property at North Queen Street, Etobicoke, at a cost of \$6,496,775.

3. Long-term debt:

	1976	1975
7 1/2% first mortgage due 1987 ¹	\$ 213,210	\$224,708
9% first mortgage due 1989 ²	4,167,737	
11% second mortgage due 1980 ²	248,634	
8 3/4% third mortgage due 1985 ²	748,564	
9% mortgage due 1976 secured on fixed and other assets ¹	21,000	57,000
Term bank loan at prime bank rate plus 1 3/4% maturing 1983 secured on fixed and other assets	4,500,000	
Mortgage due to shareholders		60,000
	9,899,145	341,708
Less: Current portion due within one year	276,939	107,392
	\$9,622,206	\$234,316

¹Secured on Hanna Avenue, Toronto property.

²Secured on North Queen Street, Etobicoke property.

On the foregoing long-term debt, aggregate payments of principal required in each of the next five years are as follows:

\$276,939 in 1977,	\$361,438 in 1978,
\$466,908 in 1979,	\$910,903 in 1980,
\$875,929 in 1981.	

4. Capital stock:

a) The Class A convertible common shares and Class B convertible common shares are fully voting, are convertible into each other on a one-for-one basis and rank equally in all respects. The only distinction between the two classes of shares is that the directors may, in declaring a dividend on the Class B

shares, specify that the dividend shall be paid out of tax-paid undistributed income in which case the Company pays a tax of 15%, and the amount of the dividend received by the Class B shareholders is 85% of the amount of the ordinary dividend received at the same time by the Class A shareholders.

- b) In 1969, the Company reserved 120,000 unissued shares for the purpose of granting to certain officers and employees options to purchase shares of the Company at the market price of the shares on the date of granting of the option exercisable not later than five years from the option date. To January 31, 1976 a total of 42,800 shares were issued under this plan and options were outstanding as follows:
- 23,400 shares at \$10 $\frac{3}{8}$ per share expiring May 5, 1977,
39,500 shares at \$3.00 per share expiring April 17, 1980.

5. Dividend restrictions:

The indentures and agreements relating to the

Company's term bank loan limit the payment of dividends by the Company in any fiscal year to 40% of the consolidated net earnings of the preceding year, with a maximum of \$300,000 if such earnings are less than \$900,000.

6. Remuneration of directors and officers:

The aggregate direct remuneration of directors and senior officers of the Company for the year ended January 31, 1976 was \$192,067 (1975—\$172,910).

7. Anti-Inflation legislation:

The Company, its subsidiaries and joint venture companies 50% owned are subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975. During the first year of the guidelines the maximum dividend which the Company can declare is 12¢ per Class A convertible common share and 10.2¢ per Class B convertible common share.

auditors' report

To the Shareholders of
Irwin Toy Limited.

We have examined the consolidated balance sheet of Irwin Toy Limited and subsidiary companies as at January 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

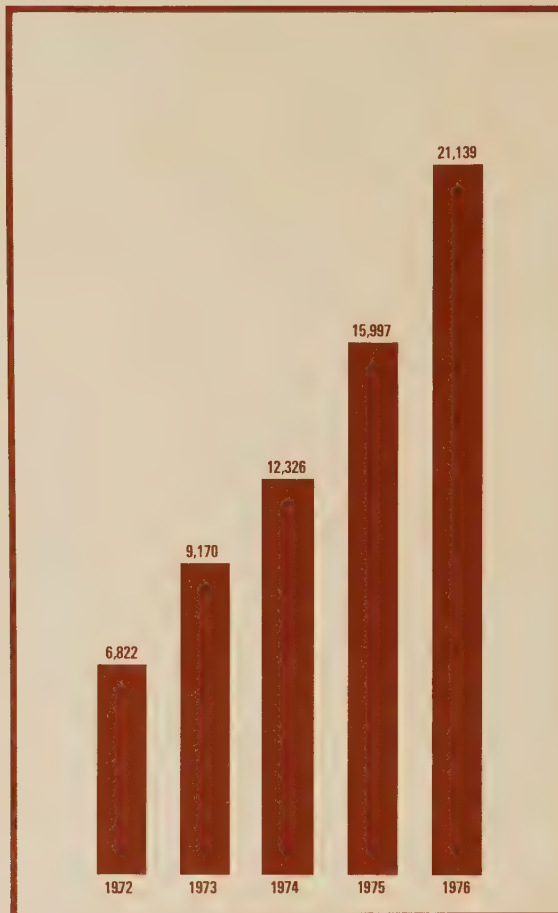
In our opinion, these consolidated financial statements present fairly the financial position of the companies as at January 31, 1976 and the results of their operations and the changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We have also examined the combined statement of earnings for the year ended January 31, 1976. In our opinion this combined statement presents fairly the results of the operations as described in note 1 (b) on a basis consistent with that of the preceding year.

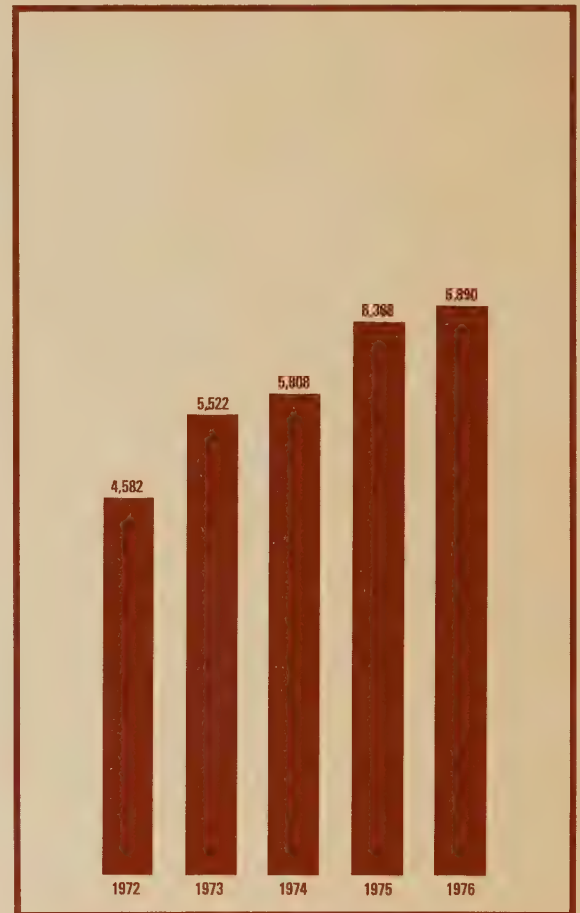
Toronto, Ontario,
April 28, 1976.

HARBINSON, GLOVER & CO.,
Chartered Accountants.

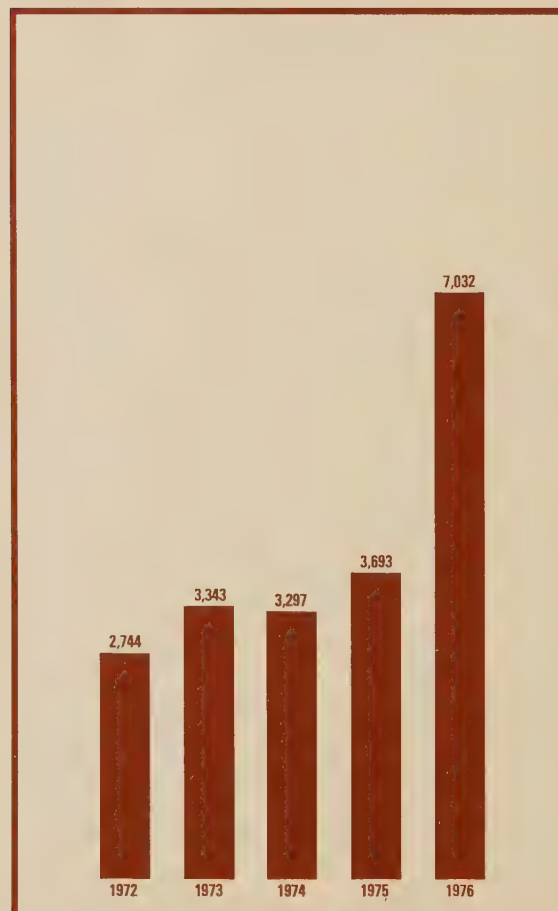
TOTAL ASSETS (\$000)



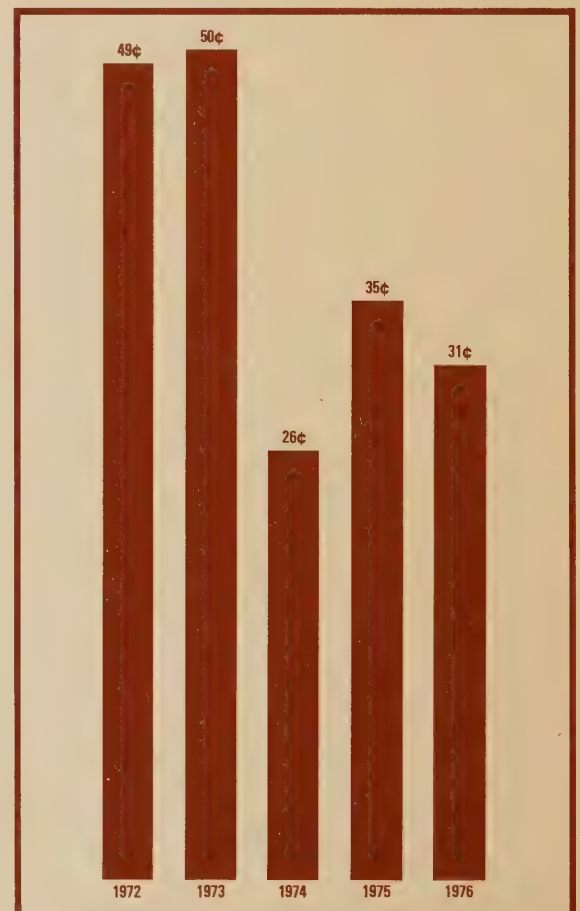
SHAREHOLDERS' EQUITY (\$000)



WORKING CAPITAL (\$000)



EARNINGS PER SHARE



SALES—IRWIN TOY (\$000)



SALES—IRWIN TOY AND JOINT VENTURES (\$000)



Auditors

Harbinson, Glover & Co., Toronto

Solicitors

Osler, Hoskin & Harcourt, Toronto

Transfer Agent and Registrar

The Royal Trust Company
Montreal, Toronto, Winnipeg, Calgary and Vancouver

Irwin products ■ Baby toys and mobiles ■ Pre-school toys ■ Toys, games and building sets ■ Kiddie furniture ■ Hobbies and crafts ■ Dolls and plush toys ■ Train and road race sets ■ Backyard swings, slides and sandboxes ■ Sporting goods and sports games ■ Inflatable mats, pools, boats and novelties ■ Swim fins, snorkels and masks ■ Above ground pools and accessories ■ In ground pools.





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